

## Message Text

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E.O. 11652: N/A

TAGS: EFIN, EC

SUBJECT: EC COMMISSION SUBMITS REVISED ECONOMIC ASSESSMENT  
AND ACTION PROGRAM TO FINANCE COUNCIL

REFS: A. EC BRUSSELS A-296, SEPT. 25, 1974

B. EC BRUSSELS A-246, AUGUST 2, 1974

1. SUMMARY: THE FINANCE COUNCIL IS TODAY (NOVEMBER 18) CONSIDERING A REVISED ECONOMIC ASSESSMENT AND ACTION PROGRAM PREPARED BY THE COMMISSION. ACCORDING TO THE ASSESSMENT, THE EC'S CURRENT ACCOUNT DEFICIT IS ESTIMATED TO REACH \$20 BILLION IN 1974 AND A CUMULATIVE TOTAL OF \$60 BILLION FOR 1974-1978. IT ESTIMATES THAT TO OBTAIN BOP EQUILIBRIUM, THE EC WILL HAVE TO REDUCE ITS GNP GROWTH RATE BY 4 PERCENT OVER THE NEXT FIVE YEARS. THE VARYING IMPACT OF THE ENERGY CRISIS CREATES SERIOUS ADJUSTMENT PROBLEMS FOR SEVERAL MEMBER STATES WHICH WILL HAVE TO CUT BACK PRIVATE CONSUMPTION IN THE FACE OF MOUNTING INFLATION, UNEMPLOYMENT AND SOCIAL TENSION. THE COMMISSION PROPOSES URGENT ADOPTION OF A JOINT ACTION PROGRAM. END SUMMARY.

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2. REVIEW OF THE ECONOMIC SITUATION: THE COMMISSION HAS SUBMITTED A NEW CONFIDENTIAL ASSESSMENT OF THE COMMUNITY'S ECONOMIC SITUATION FOR THE FINANCE COUNCIL'S CONSIDERATION. WHILE THE AGENDA FOR THE EC SUMMIT IS STILL UNDER DISCUSSION, A NUMBER OF MEMBER STATES HOPE IT WILL FOCUS ON INFLATION, UNEMPLOYMENT AND THE IMPACT OF THE ENERGY CRISIS. THIS STUDY PROVIDES NEW DATA ON THESE PROBLEMS INDICATING A MORE SERIOUS SITUATION THAN REPORTED IN THE COMMISSION'S SEPTEMBER ASSESSMENT OF NEXT YEAR'S ECONOMIC SITUATION (SEE REF A).

3. HIGH LEVELS OF PRICE INFLATION: THE REPORT CONTINUES TO CITE INFLATION AS THE EC'S MAJOR PROBLEM BUT NOTES THAT THE GROWING ECONOMIC DOWNTURN HAS NARROWED THE MARGIN OF MANEUVERABILITY BETWEEN INFLATION AND RECESSION. THE CONSUMER PRICE INDEX IS PROJECTED TO RISE THIS YEAR ON AN ANNUAL AVERAGE BASIS BETWEEN 15 TO 20 PERCENT IN FOUR COUNTRIES: ITALY, IRELAND, THE UK AND DENMARK. THESE COUNTRIES FACE A DILEMMA BECAUSE THEY ARE EXPERIENCING PRICE INFLATION, LARGE TRADE DEFICITS AND MOUNTING UNEMPLOYMENT AT THE SAME TIME. THE COMMISSION SUGGESTS THAT THE COMMUNITY SHOULD PURSUE MODERATE POLICIES BECAUSE A SHARP RELAXATION OF ECONOMIC CONTROLS WOULD STIMULATE PRICE INCREASES AND LEAD TO SERIOUS LONG TERM PROBLEMS.

4. ECONOMIC DOWNTURN: THE REPORT STATES THE COMMUNITY'S UNEMPLOYMENT REACHED 3 MILLION IN AUGUST AND IS CONTINUING TO GROW. COMMISSION OFFICIALS ESTIMATE UNEMPLOYMENT HAS NOW RISEN TO 3.3 MILLION AND MAY REACH 4 MILLION BY MARCH 1975, WHICH WOULD BE ABOUT 4 PERCENT OF THE LABOR FORCE.

5. GROWING BOP DEFICIT: THE INCREASED PRICE OF OIL HAS CAUSED DETERIORATION IN THE EC'S TERMS OF TRADE THAT CAN ONLY BE CORRECTED BY SLOWING DOWN ECONOMIC GROWTH. THE EC'S CUMULATIVE CURRENT ACCOUNT DEFICIT WILL REACH \$60 BILLION BY THE END OF 1978. TO BRING THE EC ECONOMIES INTO EQUILIBRIUM THE COMMUNITY SHOULD REDUCE ITS PROJECTED GNP GROWTH RATE BY ABOUT 4 PERCENT OVER LIMITED OFFICIAL USE

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THE NEXT FIVE YEARS, I.E., IT SHOULD BE THE EQUIVALENT OF ONE YEAR'S GROWTH IN THE NEXT FIVE YEARS. DISPARITIES AMONG THE MEMBER STATES MAKE THE ADJUSTMENT PROCESS MUCH MORE DIFFICULT. THE HARDEST HIT COUNTRIES FACE THE DILEMMA OF HAVING TO RESTRICT PRIVATE CONSUMPTION IN THE FACE OF MOUNTING UNEMPLOYMENT AND SOCIAL TENSION.

6. DISPARITIES AMONG MEMBER STATES: THE COMMISSION IS PREPARING SEPARATELY A DETAILED ANALYSIS OF THE EC'S BALANCE OF PAYMENTS SITUATION. THE PRELIMINARY FIGURES IN THIS ASSESSMENT REVISE UPWARD THE EC'S 1974 CURRENT ACCOUNT DEFICIT FROM \$17 BILLION (SEE REF B) TO \$20-22 BILLION. THE FOLLOWING ARE THIS YEAR'S ESTIMATED CURRENT ACCOUNT BALANCES FOR MAJOR EC COUNTRIES: GERMANY, PLUS \$7.5 BILLION; FRANCE, MINUS \$7.8 BILLION; ITALY, MINUS \$8.5 BILLION AND THE UK, MINUS \$9.5 BILLION. ASSUMING THAT THE FOB COST OF OIL WILL CONTINUE TO BE ABOUT \$10.50 PER BARREL, MEMBER STATES' CUMULATIVE 1974-1978 CURRENT ACCOUNT BALANCE WOULD VARY WIDELY; GERMANY, PLUS \$26 BILLION; FRANCE, MINUS \$18 BILLION; NETHERLANDS, ZERO; BELGIUM/LUXEMBOURG, PLUS 1 BILLION; THE UK, MINUS \$36 BILLION; ITALY, MINUS \$26 BILLION; IRELAND, MINUS \$3 BILLION; AND DENMARK, MINUS \$4 BILLION. INCLUDING INTEREST PAYMENTS, THE ACCUMULATED DEFICIT WOULD LIKELY REACH \$72 BILLION.

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7. EC ACTION PROGRAM: IN ORDER TO DISTRIBUTE MORE EVENLY THE BURDEN OF THE ADJUSTMENT PROCESS, THE COMMISSION RECOMMENDS A JOINT PROGRAM, I.E., THE

SURPLUS COUNTRY SHOULD HELP THE OTHERS. SUCH A PROGRAM WOULD HELP PREVENT COUNTRIES FROM RESORTING TO PROTECTIONIST MEASURES AND WOULD REDUCE THE PROSPECT OF SEVERE RECESSION IN THE HARDEST HIT COUNTRIES. THE COMMISSION SUGGESTS JOINT ACTION IN THE FOLLOWING AREAS: 1) FINANCING BOP DEFICITS; 2) CONSERVING AND DEVELOPING NEW SOURCES OF ENERGY; 3) PROMOTING INTERNATIONAL COOPERATION; AND 4) REDUCING THE SOCIAL COSTS OF THE ADJUSTMENT PROCESS. A SOCIAL PROGRAM SHOULD ENCOURAGE LABOR MOBILITY, EXPAND SOCIAL SECURITY AND ENLARGE THE EC'S COAL FUND. THE EC SHOULD ALSO IMPROVE ITS PUBLIC FINANCES AND GIVE EMPHASIS TO INVESTMENTS THAT WILL RESTRUCTURE THE ECONOMY. THE COMMISSION PROPOSES GIVING PRIORITY TO DRAWING UP A MEDIUM AND LONG TERM ECONOMIC PROGRAM.

8. COMMENT: THE COMMISSION'S PROPOSALS WILL GO THROUGH SEVERAL REVISIONS BEFORE THEY ARE FINALLY LIMITED OFFICIAL USE

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READY FOR THE SUMMIT. INDEED, THE COMMISSION ITSELF IS STILL NOT FIRMLY ON BOARD ON ITS OWN PAPER. PRESIDENT ORTOLI'S STAFF HAS PREPARED ITS OWN INDEPENDENT ANALYSIS AND PROPOSALS.

9. COMMISSION OFFICIALS CONCEDE THAT THE PROPOSED ACTION PROGRAM MAY BE INSUFFICIENT TO COPE WITH THE PROBLEMS OF "STAGFLATION," UNEMPLOYMENT AND THE DETERIORATION IN THE TERMS OF TRADE. THE SITUATION IS NOT BEYOND CONTROL, BUT THE MEMBER STATES MUST BE WILLING TO HELP EACH OTHER TO AVERT SERIOUS PROBLEMS FOR HARD-PRESSED MEMBERS. THE PROPOSALS IN SECRETARY KISSINGER'S CHICAGO SPEECH WERE NATURALLY NOT TAKE INTO ACCOUNT IN PREPARATION OF THE COMMISSION'S ASSESSMENT. COMMUNITY OFFICIALS ARE NOW STUDYING THESE CLOSELY. END COMMENT. MYERSON

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